

**REGULAR STATE CREDIT UNION BOARD MEETING
OFFICE OF THE COMMISSIONER
DEPARTMENT OF FINANCIAL INSTITUTIONS
2000 SCHAFFER STREET, SUITE G
BISMARCK, NORTH DAKOTA**

September 23, 2003

The regular meeting of the State Credit Union Board was called to order by Chairman Karsky in the Office of the Commissioner, Department of Financial Institutions, 2000 Schaffer Street, Suite G, Bismarck, North Dakota, at 9:34 a.m., Tuesday, September 23.

MEMBERS PRESENT: Timothy J. Karsky, Chairman
Judy A. Millar, Member
Ervin E. Mund, Member
Melanie Stillwell, Member
Steven S. Tonneson, Member

MEMBERS ABSENT: None

ALSO PRESENT: Robert J. Entringer, Secretary
Scott Miller, Assistant Attorney General
Jim Laidlaw, Chief Examiner – Credit Unions
Corey Krebs, Financial Institutions Examiner
Paul Brucker, Railway Credit Union
Kevin Kleingartner, Railway Credit Union
Pamela Katin-Vetter, Railway Credit Union
Leonard Ciavarella, Railway Credit Union
Jerry Stoddart, Bismarck Telco Federal Credit Union
Kermit Larson, North Dakota Credit Union League
Deb Gallagher, Capital Credit Union
Doreen Ottemoeller, Capital Credit Union
John Petrik, Vogel Law Firm
Greg Tschider (*Arizona*)

NEW BOARD MEMBER

Chairman Karsky welcomed the new State Credit Union Board member, Melanie Stillwell, who is President of Western Cooperative Credit Union, Williston.

APPROVAL OF MINUTES

Chairman Karsky indicated the Board received copies of the minutes of the regular meeting held on June 6, 2003. **It was moved by Member Tonneson, seconded by Member Stillwell, and carried by voice vote to dispense with the reading of the minutes and approve the minutes as published.**

RAILWAY CREDIT UNION, MANDAN – APPLICATION TO MERGE WITH BISMARCK TELCO FEDERAL CREDIT UNION, BISMARCK; APPLICATION TO EXPAND FIELD OF MEMBERSHIP; APPLICATION TO ESTABLISH A BRANCH

Chairman Karsky reviewed his Memorandum, beginning with the merger application. The Memorandum also included information on the North Dakota Century Code Section 6-03-36, Mergers, as well as the North Dakota Administrative Code Section 13-03-05-01, which sets forth procedures a state-chartered credit union must follow when planning to merge. The Memorandum further addressed North Dakota Administrative Code Section 13-03-05-04, Considerations for approval, which sets forth those facts the State Credit Union Board shall examine and consider relative to an application for merger. The Memorandum notes that the Board of Directors of each credit union have approved the merger, proper notice has been given to all members, the entire membership has voted in favor of the merger, an application has been filed with the Department and forwarded to the State Credit Union Board members, proper notification was given to all credit unions within a 50 mile radius, and notice was published in the official newspapers for Burleigh and Morton Counties.

Chairman Karsky indicated an examination was completed by the Department of Bismarck Telco Federal Credit Union, as provided in the North Dakota Century Code, and the examination showed the credit union to be in a safe and sound condition. No concerns were raised by the Department.

Chairman Karsky stated the tentative merger date of October 1, 2003, has been set.

Chairman Karsky stated page 2 of the application sets forth the reasons for the proposed merger by the credit unions. He stated a June 30, 2003, statement for Railway Credit Union; copies of the notices of meetings and minutes of those special Board meetings; and a financial statement showing post-merger closing as of June 30, 2003, were included with the application. It is projected the credit union's total assets would be \$26,792,000, with an equity position of approximately 15%, which is well above the minimum standards established by the State Credit Union Board.

Chairman Karsky asked President Brucker if he had comments in support of Railway Credit Union's merger application. President Brucker distributed a document to the State Credit Union Board members entitled "Merger Application – Railway Credit Union and Bismarck Telco Federal Credit Union". There are three items in the Table of Contents including the field of membership issue, a hardship issue, and letters of support.

President Brucker indicated he has worked with the President of Bismarck Telco Federal Credit Union for some time, indicating it is a small credit union; therefore, it is becoming more difficult to comply with regulatory issues. President Brucker indicated the National Credit Union Administration has been making strong recommendations for items that need to be corrected at Bismarck Telco Federal Credit Union.

President Brucker directed the Board's attention to the graphs included under the "hardship issue", starting with the return on assets. President Brucker noted it has become more difficult for Bismarck Telco Federal Credit Union to remain a profitable entity, noting that a normal credit union should have a 1% ROA. He stated the return on assets for Bismarck Telco Federal Credit Union is currently .18 for year-to-date 2003.

President Brucker stated the chart "annualized income" shows that for the past three years Bismarck Telco Federal Credit Union's income has been decreasing.

President Brucker referred to the “allowance for loan losses” chart, and noted because of the income challenges Bismarck Telco Federal Credit Union has faced the allowance for loan losses has not been properly funded.

President Brucker referred to the Document of Resolution, noting these are the issues of concern that NCUA was requesting Bismarck Telco Federal Credit Union to correct. Among those concerns, the responsible person to resolve these items is the Chairman of the Board of the credit union. Included among these items was to develop a business plan with goals including a net worth ratio, a loan to total asset ratio, a loan to share ratio, delinquency ratio, and earnings ratio. President Brucker noted this is the second consecutive examination where this item remained uncorrected. President Brucker indicated this was not a matter of not wanting to correct this item, but more so that the Board did not have the expertise to address this. As a result of these challenges, President Brucker indicated Railway Credit Union and Bismarck Telco Federal Credit Union began discussing merger possibilities. President Brucker indicated after much discussion the credit unions realized they had many similarities.

President Brucker stated the field of membership issue will be discussed later; however, he pointed out that most of the members of Bismarck Telco Federal Credit Union are already eligible for membership in Railway Credit Union by virtue of their membership in CWA (the Communication Workers of America). President Brucker indicated with the union groups at Railway Credit Union: railroad employees, AFL-CIO, and teamsters, the common bond was very strong.

Chairman Karsky asked if any Board members had questions regarding the merger application. Hearing none, Chairman Karsky referred to the portion of his Memorandum regarding the application to expand the field of membership, which detailed Railway Credit Union’s current field of membership. Chairman Karsky stated it is noted in the application that Railway Credit Union would like to add the employees of Qwest and AT&T Corporations, all of their affiliated companies and subsidiary organizations to its current field of membership. Chairman Karsky indicated the current number of members for Railway Credit Union is 2,583 and it is estimated the number of potential members to be added by this expansion would be 1,300.

Chairman Karsky referred to his Memorandum which detailed the statutory requirements found in North Dakota Century Code Chapter 6-06-07, Membership, as well as the requirements found in North Dakota Administrative Code Chapter

13-03-14, Field of Membership. The Memorandum specifically detailed what the Board shall consider when considering an expansion of field of membership, as well as what a credit union must comply with when wishing to expand its field of membership. The Memorandum stated the credit union has complied with all the regulatory provisions.

Chairman Karsky indicated the Department received a letter from Marilyn Foss, General Counsel for the North Dakota Bankers Association. In her letter Ms. Foss states she understands the authority of the State Credit Union Board to permit multiple unrelated groups to form the membership of a state-chartered credit union is the subject of a request for an Opinion by the Attorney General. Enclosed with the State Credit Union Board agenda is a copy of an Attorney General's Opinion dated February 19, 1999, whereby the Attorney General was presented with three questions concerning field of membership, and those questions and answers are outlined in the Opinion. Chairman Karsky also noted that the newly requested Attorney General's Opinion was included with the State Credit Union Board agenda.

Chairman Karsky indicated he would have Assistant Attorney General Miller discuss the issue of whether Ms. Foss did request a hearing in her letter to the State Credit Union Board. Assistant Attorney General Miller indicated in her letter Ms. Foss had asked for an opportunity to be heard before the Board acts on the application to expand the field of membership of the Railway Credit Union. Ms. Foss further stated in her letter if the State Credit Union Board determines to call a hearing on the application the North Dakota Bankers Association will petition to intervene in that proceeding. Assistant Attorney General Miller indicated that apparently in a conversation between Ms. Foss and Chairman Karsky, Ms. Foss stated she felt that constituted a request for a formal hearing; however, Assistant Attorney General Miller stated he does not feel Ms. Foss has the right to request a hearing. Assistant Attorney General Miller continued the Chapter indicates the Board shall adopt a procedure whereby all interested persons are afforded reasonable opportunity to submit data, views, or arguments, orally or in writing, concerning a proposed application for a credit union to expand its field of membership. Assistant Attorney General Miller indicated the Board has complied with the requirements of this Chapter by inviting comments to be presented orally or in writing, and Ms. Foss did submit written comments, and it was assumed she would be present at this meeting to provide oral comments. Assistant Attorney General Miller continued that if the Board believes it to be in the public interest, a hearing may certainly be called; however, there is no requirement for that. As

detailed in the two Attorney Generals' Opinions regarding the field of membership, the legal parameters are that there has to be a common bond of occupation or association, or a well-defined rural or urban district. In this case it is the common bond of association or essentially employment. Whether a particular credit union's field of membership complies with those requirements is a "fact" question, not a legal question, which is something the Board has to decide. The Board needs to review everything presented to them and determine whether there is a common bond of occupation or association present before approving the field of membership expansion. Assistant Attorney General Miller indicated he did assist on both the 1999 and current Opinion, and if the Board has any questions regarding those Opinions, they should ask him.

Chairman Karsky asked if the Board would like to request a hearing regarding the expansion of field of membership as that is the primary point of opposition for the North Dakota Bankers Association, as indicated in the letter from Ms. Foss. Chairman Karsky stated if the Board desires to call a hearing proper notice would have to be given, an administrative hearing officer would need to be requested, and the hearing would more than likely be held during the State Credit Union Board's regularly-scheduled December 2003 meeting.

Greg Tschider asked if the Board would not wait until the full testimony has been given regarding the field of membership expansion and then decide whether they have problems with the facts. It is the prerogative of the State Credit Union Board to determine the factual issue related to whether there is a common bond of association. If the Board feels that factual issue is obvious or does not need additional testimony, then perhaps the Board could determine whether or not a hearing is needed.

Chairman Karsky asked if the Board would like to review the entire Memorandum and then make a decision, and the Board concurred they would like to continue hearing all the testimony.

Chairman Karsky asked President Brucker to testify as to his support of the field of membership expansion. President Brucker stated he felt this was important since it is confusing when dealing with the union arena, especially if you are not familiar with it on a day-to-day basis. President Brucker referred the Board to the first section of his handout, which is entitled Field of Membership Issue. The narrative of President Brucker's handout quotes the letter from the North Dakota Bankers Association which states "While BNSF, Canadian Pacific Railroad, Qwest,

and AT&T have employees who are members many (and perhaps most) are not.” (Emphasis added.) NDBA’s assertion is not supported by the facts. President Brucker reviewed who Railway Credit Union’s field of membership includes at the present time, and continued that BSNF is referred to as a closed-shop employer, meaning to be a scheduled employee you must belong to the union. President Brucker indicated they reviewed the scheduled and exempt employees of BSNF and were not able to identify one employee who did not retain their affiliation or was not a union member. President Brucker indicated he is not as familiar with Canadian Pacific; however, he has been told they are a mirror image of the BSNF structure. The Teamsters are 100% union and AFL-CIO is the umbrella organization of unions.

President Brucker stated the application is only asking to expand the field of membership to include the present field of membership of Bismarck Telco Federal Credit Union. The wording in the application refers to the breakup of AT&T and Bismarck Telco Federal Credit Union’s primary sponsor became all these splintered companies. President Brucker continued there are not many employees in most of the companies, since most the companies are not located here. President Brucker stated they wanted to include what Bismarck Telco Federal Credit Union presently had in its field of membership. Currently, Bismarck Telco Federal Credit Union’s principal sponsor is Qwest, and Qwest is a union employer. President Brucker indicated 90 of the 94 union eligible employees have union membership with the Communication Workers of America (CWA). President Brucker indicated in essence these individuals are already eligible to be members of Railway Credit Union, and continued since these individuals are already eligible there should be no negative impact on any other credit union.

President Brucker referred to the Articles of Amendment to the Bylaws submitted by Railway Credit Union, which is the existing field of membership. He pointed out that the members of the American Federation of Labor-Congress of Industrial Organization or AFL-CIO are the individuals that actually belong to the union. The AFL-CIO unions and employees of such unions, which is the actual union entity itself, is a separate organization. President Brucker indicated he contacted Dave Kemnitz, President of the North Dakota AFL-CIO, and indicated there is a listing contained in his handout of all the organizations that belong to the AFL-CIO. President Brucker indicated in essence the existing field of membership of Railway Credit Union includes all of the organizations included on this list. President Brucker stated the CWA is the fifth organization listed, which are the individuals that work for Qwest that Railway Credit Union is dealing with.

Chairman Karsky asked President Brucker if the credit union plans to take on non-union individuals some time in the future. President Brucker stated they are not considering that since at this time they have not even tapped most of their eligible membership.

Member Tonneson stated the possible members of Railway Credit Union are listed as 600; however, there are only 94 members, and he questioned what the difference is. President Brucker indicated it is family members and retirees.

Chairman Karsky indicated Railway Credit Union does have letters of support. President Brucker indicated those letters are located in the third section of his handout, which are letters received from Midwest Corporate Federal Credit Union, Bismarck, and Capital Credit Union, Bismarck.

President Brucker indicated he has received no objections to the proposed expansion of field of membership, either verbally or in writing, other than from the North Dakota Bankers Association.

Chairman Karsky asked where the employee members will do business, and President Brucker indicated that would be at the credit union's main office and branch located in Mandan. President Brucker explained the President of Bismarck Telco Federal Credit Union would be transferred to the credit union's Bismarck branch.

Chairman Karsky continued with the third section of his Memorandum regarding the branch application. This portion indicated that the branch site is the current location of Railway Credit Union. By letter dated August 19, 2003, Chairman Karsky approved the credit union's request to relocate the main office to 1006 East Main Avenue, Mandan. The credit union has reached a tentative agreement with St. Alexius Medical Center to purchase property located at this address for a purchase price of \$625,000, with the understanding that St. Alexius Medical Center will pay off all special assessments and all 2003 property taxes. North Dakota Century Code Section 6-06-28 outlines the authority for the Commissioner to approve the relocation of credit union offices. The Department reviewed the financial projections which include only Railway Credit Union projections, not the proposed merger projections. Chairman Karsky stated it is not believed the purchase of this building will have a negative impact on the overall operation of Railway Credit Union; therefore, the request was approved.

Chairman Karsky stated Railway Credit Union does need approval from the State Credit Union Board to establish a branch at its former location, 300 1st Street SW, Mandan. As noted in Attachment B, the applicant states the financial impact to operate its current location on a part-time basis was factored into the projections to purchase the new building. This impact was also factored into the figures to expand the field of membership. Fixed costs at the current location are minimal as the sponsor group provides office space, utilities, and the telephone system. Chairman Karsky indicated his Memorandum addresses the requirements found in North Dakota Administrative Code Chapter 13-03-15, Branching, and those requirements are attached for the Board's review. Chairman Karsky stated the Department believes the credit union has complied with all aspects of the regulation.

Chairman Karsky asked President Brucker to explain the facility and how it will affect the credit union. President Brucker indicated the credit union has purchased the old St. Alexius Medical Center facility on Main Street, Mandan, which is approximately 61,000 square feet. President Brucker explained the credit union will occupy approximately half of that area, and the credit union is hoping to obtain a chiropractor, dentist, etc., to rent the remaining area. President Brucker explained it was the credit union's plan to acquire an offsite facility before the merger with Bismarck Telco Federal Credit Union was considered. The credit union's present office is located in the railroad terminal in Mandan, which is not convenient for the members because of the railroad building security. He stated the credit union's office is located on the second floor and there is no drive-up facility available; therefore, the members are looking forward to the new location.

Chairman Karsky asked Chief Examiner Laidlaw if he had any concerns regarding the expansion of Railway Credit Union, Chief Examiner Laidlaw stated he sees no problems with this expansion.

Chairman Karsky indicated because the branch application is not tied to the merger or expansion of the field of membership, it would be appropriate for the Board to take action on the branch application separately.

It was moved by Member Mund and seconded by Member Tonneson to approve the application by Railway Credit Union, Mandan, to establish a branch at 300 1st Street SW, Mandan.

Chairman Karsky indicated the lack of a drive-up facility for the current location is a real drawback and the relocation would be positive for the convenience and needs of the members of the credit union.

There being no further discussion, **the motion was unanimously carried.**

Chairman Karsky indicated since the motion did not include approval of the Order for the branch, the Board should have an opportunity to review the Order and decide whether to approve the Order.

It was moved by Member Tonneson, seconded by Member Mund, and unanimously carried to approve the Order for Railway Credit Union, Mandan, to establish a branch at 300 1st Street SW, Mandan.

Chairman Karsky reviewed the requirements of Section 13-03-05-04 of the North Dakota Administrative Code, which includes: (1) whether proper notification has been given to all members, unless the membership meeting has been waived by the Board; (2) the comments of the members of each of the credit unions to be merged; (3) if there was more than one potential merger partner, consideration may be given to the credit union with the more similar field of membership or in a closer proximity to the merging credit union – Chairman Karsky stated he did not believe there was more than one potential merger partner; (4) the financial condition of the continuing credit union.

Chairman Karsky indicated the projections indicate Railway Credit Union will meet the minimum capital requirements and will continue to be profitable even after including the expansion of the new facility. Chairman Karsky stated it is the Department's recommendation to approve the merger application by Railway Credit Union, Mandan, to merge Bismarck Telco Federal Credit Union, Bismarck, with and into Railway Credit Union.

It was moved by Member Mund and seconded by Member Millar to approve the merger of Bismarck Telco Federal Credit Union, Bismarck, with and into Railway Credit Union, Mandan.

Chairman Karsky asked if there was any discussion. Member Mund indicated based on the information supplied by President Brucker, it is apparent the National Credit Union Administration would have found a merger partner for Bismarck Telco Federal Credit Union. Therefore, he indicated he supports the

merger. Member Millar concurred it is apparent the merger was going to occur. Chairman Karsky indicated it is apparent management of the two credit unions will be able to work well together.

There being no further discussion, **the motion was unanimously carried.**

It was moved by Member Stillwell, seconded by Member Millar, and unanimously carried to approve the Order regarding the merger of Bismarck Telco Federal Credit Union, Bismarck, with and into Railway Credit Union, Mandan.

Chairman Karsky reviewed the requirements the Board must consider regarding an expansion of field of membership: (1) If the expansion is for an open charter credit union. Chairman Karsky stated this requirement does not apply. (2) Whether there is any negative impact to any other state or federally-chartered credit union in the expanded area. Chairman Karsky indicated he does not feel there is a negative impact to any other credit union. (3) The expressed need in the expansion area. Chairman Karsky indicated even though this is not a state-chartered credit union and we have not deemed this emergency, it seems something needs to be done for Bismarck Telco Federal Credit Union to survive.

Mr. Tschider indicated he feels the State Credit Union Board has two parameters in deciding a field of membership issue to approve this request. One, the field of membership issue relating to whether or not this in fact is a union relationship, and Mr. Tschider stated he feels President Brucker did an excellent job pointing out the members of Bismarck Telco Federal Credit Union are already eligible to be members in Railway Credit Union. Therefore, there is no factual dispute as to the common bond. Second, the fact that Bismarck Telco Federal Credit Union is in financial trouble and referred to evidence that the credit union did not make a profit this past year. Mr. Tschider referred to the graph and pointed out that the allowance account was substantially higher from 1998 through 2002, and in 2003 the allowance account is below \$4,000. Mr. Tschider indicated that was not a result of good business practices, but was a direct result that the allowance account was not properly funded. Mr. Tschider stated if the allowance account was properly funded Bismarck Telco Federal Credit Union lost money. Mr. Tschider stated the net worth of the credit union continues to drop – over the last six years it has dropped by over 40%. Mr. Tschider stated given the equity position of this credit union, merging is the only option for the membership. Mr. Tschider stated he would suggest to the State Credit Union Board there is no issue

regarding the field of membership, and that regarding the hardship issue he would hope this would compel the State Credit Union Board to approve the expansion. Mr. Tschider stated under the North Dakota Administrative Code regarding the hardship issue, the rules can be waived. Mr. Tschider stated he respectfully requests the State Credit Union Board approve the expansion field of membership for Railway Credit Union.

Chairman Karsky continued with the requirements the Board must consider regarding an expansion of field of membership: (4) Whether there is any expressed opposition to the expansion of field membership by any other credit union. He noted there was no expressed opposition. (5) Open charter issue. Chairman Karsky stated that is not the case. (6) The credit union must demonstrate the ability to succeed in expanding its field of membership. Chairman Karsky stated he feels Railway Credit Union has accomplished this with the projections submitted. (7) Relative public comment in favor or in opposition of the field of membership expansion. Chairman Karsky stated we have received favorable comments and one opposition. Chairman Karsky stated all the relevant public comments were provided to the Board and the opposition comment has been noted for the record. (8) Any other factor that the State Credit Union Board deems pertinent.

Member Stillwell asked President Brucker if NCUA has approved the merger application, and President Brucker stated they have received approval from NCUA.

Member Mund asked if NCUA has approved both the expansion of field of membership and the merger, and President Brucker stated NCUA only rules on the merger application.

Chairman Karsky indicated one significant issue is the common bond issue and each of the State Credit Union Board members has to resolve themselves whether there is a common bond. Chairman Karsky asked Assistant Attorney General Miller to outline the common bond issue again for the Board. Assistant Attorney General Miller stated the common bond issue is a factual determination; therefore, the Board needs to determine whether there is a common bond of occupation or association.

Member Mund asked if the rules had to be complied with if this is a hardship issue. Assistant Attorney General Miller indicated the statute reads that the rules do not have to be followed if it is deemed to be a failing institution and there was a question as to whether the statutory provision was permissible regarding the emergency clause. Given that there is a delegation of authority issue that the

Attorney General's Office chose not to address in this Opinion and the way the Opinion did address the issues that this is not a failing institution; therefore that question is irrelevant.

Member Tonneson indicated he feels President Brucker has done a good job presenting the common bond, and continued that he did not see the need for a hearing based on what has been presented today.

President Brucker asked to discuss the progression of Railway Credit Union, noting that there used to be an AFL-CIO Credit Union, and the same thing happened there – the credit union was too small to survive. AFL-CIO Credit Union was merged with the Soo Line Employees Credit Union, which was merged under the same common bond – the union members. Shortly thereafter Soo Line AFL-CIO Credit Union was too small to survive and was then merged with Railway Credit Union. President Brucker indicated over time there has been this logical progression, but that the union theme has been supported all the way through.

It was moved by Member Tonneson and seconded by Member Mund to approve the request by Railway Credit Union, Mandan, to expand its field of membership to include employees of Qwest and AT&T Corporations, all of their affiliated companies and subsidiary organizations. The motion was unanimously carried.

Paul Brucker, Kevin Kleingartner, Pamela Katin-Vetter, Leonard Ciavarella, Jerry Stoddart, and Greg Tschider left the meeting at 10:25 a.m.

ST. ALEXIUS MEDICAL CENTER CREDIT UNION, BISMARCK – APPLICATION TO EXPAND FIELD OF MEMBERSHIP

Chairman Karsky reviewed his Memorandum dated September 19, 2003, and indicated the Board had received a copy of the application for St. Alexius Medical Center Credit Union to expand its field of membership from a closed charter credit union to a community charter credit union, which would be a 50 mile radius of Bismarck/Mandan.

Chairman Karsky indicated the North Dakota Administrative Code Chapter 13-03-14, Field of Membership, sets forth the criteria for a credit union to expand its field of membership, and a copy of that Chapter is enclosed for the Board's

review. Approval of the proposed expansion of field of membership was given by the Board of Directors of St. Alexius Medical Center Credit Union on June 18, 2003, by a vote of 8 to 0, with one member absent. The Department received the application to expand the field of membership on July 28, 2003, and subsequent information was provided on August 5, 2003.

Chairman Karsky continued that the application to expand the field of membership must be accompanied by the necessary documents for amendment of bylaws, as required by North Dakota Century Code Section 6-06-04. The Board of Directors of St. Alexius Medical Center Credit Union is authorized to make this decision for the credit union and the appropriate documents have been received by the Department. Notice of the application was published in the official newspapers for McLean, Burleigh, Morton, and Kidder Counties, as required by the North Dakota Administrative Code, and the notice did contain the time and place for the meeting of the State Credit Union Board to consider the application.

Chairman Karsky indicated he reviewed the application with Chief Examiner Laidlaw and they have no concerns regarding the application.

Chairman Karsky asked Member Mund to review the application for the Board.

Member Mund indicated because he is a member of the State Credit Union Board he asked John Petrik with the Vogel Law Firm to review the application.

Mr. Petrik indicated Chairman Karsky had reviewed the requirements of the North Dakota Administrative Code and basically the credit union has met the requirements as outlined. Mr. Petrik indicated one quirk in the application is that currently medical staff and employees of the Garrison Memorial Hospital are eligible for membership in the credit union, but going forward they would not be eligible because they would not fall within the field of membership. However, those individuals who are currently members would remain members. Mr. Petrik concluded that as far as they know there has been no opposition to the application, and he would be happy to respond to questions from the Board.

Chairman Karsky pointed out that the current number of members of the credit union is 3,500, with the potential number of members of approximately 95,000, as indicated in the application. Chairman Karsky indicated even if a small

fraction of that potential is achieved, it does give the credit union an opportunity to grow.

Member Mund indicated at the present time the membership of the credit union is down approximately 17 members, and that the potential for the credit union to grow has stagnated because the medical center is not expanding and is in fact cutting back. Member Mund continued if the reimbursement for Medicare and Medicaid does not change it is hard to say what will happen to these medical centers, which is one of the things the Board seriously considered. Member Mund referred to the letter of support from the CEO of the St. Alexius Medical Center, as well as a letter of support signed by the entire Board of St. Alexius Medical Center, both of which support the conversion to a community charter. The credit union's chances of survival are much greater if it converts to a community charter.

Member Stillwell asked if the potential number of members for St. Alexius Medical Center has declined over the past few years, and Member Mund indicated it has because of layoffs.

Chairman Karsky indicated this would be the third community charter credit union in the Bismarck/Mandan area, and when looking at the number of financial institutions in the area it seems as though the small ones survive and the large ones continue to get larger. Chairman Karsky stated he feels as a community charter credit union St. Alexius Medical Center Credit Union would do well, and he did not feel the other community credit unions would be stifled because of this conversion. Chairman Karsky stated he felt this would open up the opportunity for other individuals to become members of a credit union, and if some of these small credit unions do not expand their field of membership they will not survive.

It was moved by Member Millar and seconded by Member Stillwell to approve the application by St. Alexius Medical Center Credit Union, Bismarck, to expand its field of membership to a community charter, with its field of membership being a 50 mile radius of Bismarck/Mandan, North Dakota.

Chairman Karsky asked Assistant Attorney General Miller to review an Attorney General's Opinion that deals with Conflicts of Interest for Board members. Assistant Attorney General Miller indicated the Attorney General's Opinion indicates if a Board member has an apparent conflict, he/she still has a duty to vote, as long as that individual is present. Member Mund inquired as to how he

was required to vote: yea, nay, or present. Assistant Attorney General Miller indicated Member Mund is required to vote either yea or nay, and if he refused to vote then his vote would be cast with the majority vote.

The motion carried by a vote of 5 to 0.

Mr. Petrik left the meeting at 10:40 a.m.

CAPITAL CREDIT UNION, BISMARCK – APPLICATION TO ESTABLISH A BRANCH AT THE CORNER OF BURNT BOAT DRIVE AND TYLER PARKWAY, BISMARCK

Chairman Karsky stated the Department received the application on July 28, 2003. Rather than reviewing his Memorandum for the Board, he indicated the credit union has complied with the publication and notice requirements, and the Board has received a copy of the application.

Chairman Karsky asked President Gallagher to review the application and answer any questions regarding the projections.

President Gallagher indicated the credit union has a number of branches in the Bismarck/Mandan area, and it has been their focus to try to reach all areas of the communities. President Gallagher indicated the last branch application was for Mandan several years ago, and the credit union's Board has noted the areas where Bismarck has grown, and determined that northwest Bismarck area is growing considerably. President Gallagher stated credit union management started looking for a parcel of land in this area, and purchased the land located at the corner of Burnt Board Drive and Tyler Parkway approximately one year ago. President Gallagher indicated the credit union is proposing to build a 5,000 square foot facility which will be relatively full service with teller services, but more importantly to offer member services which would include lending. The branch will be staffed with just under nine full-time equivalent employees and will be open six days a week with extended hours, which is comparable to their other branches.

President Gallagher indicated this is a big step since this will be a newly constructed free-standing location, whereas in the past they have located in supermarkets or purchased existing buildings. Because of this, President Gallagher indicated it would take some time for the credit union to breakeven; however, with the projections for this location the credit union took a different approach since in

the past the projections had been fairly conservative and the credit union has been able to exceed those projections. President Gallagher explained with this application the credit union looked at previous branch applications and took an average of the activity to use in this projection. President Gallagher indicated it will be an expensive proposition, as they estimate the building to cost \$1.8 million with an additional \$500,000 for furniture, fixtures, and equipment.

President Gallagher indicated the credit union currently serves approximately 36% of the households in the Bismarck/Mandan community; however, discovered they only serve approximately 18% in this area, so they believe there is plenty of room for growth. President Gallagher indicated they took the projections one step further in order to determine what the impact to the credit union would be, and the conclusion is that the impact is going to be approximately 25 basis points in 2003 to the credit union's ROA. Additionally, the impact to fixed assets was considered, since the credit union does not want to hinder the services currently being offered to the members, along with what they could potentially offer in the future.

Chairman Karsky inquired whether the branch would include a real estate loan officer, and President Gallagher indicated not initially, but they will have additional space to offer this in the future.

After further discussion, it was moved by Member Mund and seconded by Member Stillwell to approve the application by Capital Credit Union, Bismarck, to establish a branch at the Corner of Burnt Boat Drive and Tyler Parkway, and to approve the Order allowing the credit union until December 31, 2004, to construct this branch. The motion was unanimously carried.

President Gallagher, Doreen Ottemoeller, and Kermit Larson left the meeting at 11:00 a.m.

The Board took a break at 11:00 a.m. and reconvened to closed session at 11:10 a.m.

Timothy J. Karsky, Chairman

Robert J. Entringer, Secretary